

merge and just add together the book values of their net assets.

The availability of two different accounting methods for business combinations is problematic for several reasons. First, it is difficult for investors to compare the financial statements of companies that use the different methods. The purchase method of accounting provides investors with different and much more useful financial information than does the pooling method—because the financial statements of the acquiring company in a purchase business combination reflect the investment it has made and provide feedback about the subsequent performance of that investment. Second, it affects competition in the mergers and acquisitions market (both domestically and internationally). Because companies that can use the pooling method do not report the cost of goodwill and other similar costs of the acquisition, they may be more willing to pay more than companies that must use the purchase method. This obviously can have a dramatic effect on shareholders. Third, the United States is out of step internationally—most other countries either prohibit the pooling method entirely or permit its use only as an exception.

Finally, since the current accounting standards for business combinations were issued in 1970, the FASB, the American Institute of Certified Public Accountants, the Emerging Issues Task Force, and the United States Securities and Exchange Commission (SEC) have all been inundated with issues resulting from companies' seeking to use the pooling methods. Numerous interpretations of the pooling method rules have been required to address those issues. The high degree of required maintenance of those rules has led many to conclude that the current accounting rules are broken.

After over a dozen public Board meetings, public meetings with the Financial Accounting Standards Advisory Council and the Business Combinations task force (both of which include preparers, users, and auditors), the issuance of two documents for public comment, and after carefully considering the input from all of its constituents, including the accounting and banking communities, the Board has tentatively decided that only one method, the purchase method, should be used to account for all business combinations.

The Board's tentative decision reflects the view that virtually every business combination represents the purchase of one company by another and that the purchase method is the most appropriate method of reporting the economics of those transactions to investors. By allowing only one method of accounting for all business combinations: The investment made in the purchase of the other company is always reflected; feedback about the performance of those investments is provided; and investors can more easily make comparisons between investment opportunities, both domestically and internationally.

As part of the FASB's extensive and open due process, the tentative decision regarding the methods of accounting for business combinations will be exposed for public comment later this summer as part of an Exposure Draft of a proposed new business combination accounting standard. In addition, early next year, the Board will hold public hearings to provide constituents an additional opportunity to directly discuss any concerns with the Board.

Comment letters received in response to the Exposure Draft and the public hearing testimony will be carefully and fully considered by the Board at public meetings prior to reaching any decisions on the content of a final standard on the accounting for business combinations. FASB has kept the Congress fully informed on these matters of substance and process through document submissions and staff briefings.

This accounting issue is controversial and will require extensive and careful review, realities that FASB fully recognizes and has taken steps to fully address. Legislation is not warranted. But I would like to point out that for some time, U.S. stock exchanges and many U.S.-based multinational companies have been pushing for adaption of international accounting standards. I find it ironic that some segments of the industry are now opposing the adoption of international standards in area where those standards are arguably tougher and more honest and accurate than the current U.S. standard.

The Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940 are the basic laws that govern securities market regulation in the United States. Those laws, and related rules and regulations subsequently adopted by the SEC, establish the initial and continuing disclosure that companies must make if their securities are sold to or traded by the U.S. investing public. The goals of this disclosure system are to promote informed decisions by the investing public through full and fair disclosure, which includes preventing misleading or incomplete financial reporting. The success of this system has produced the world's most honest, fair, liquid, and efficient capital market. Financial statements are a cornerstone of this approach, and the quality and usefulness of those financial statements are directly dependent on the accounting principle used to prepare them.

While the federal securities laws grant the SEC the authority to establish U.S. generally accepted accounting principles of GAAP, the SEC historically has looked to the private sector, and has formerly endorsed FASB, for leadership in establishing and improving accounting principles to be used by public companies, while the SEC retains its statutory authority to supplement, override or otherwise amend private sector accounting standards in the rare occasions where such action may be necessary and appropriate. This partnership with the private sector facilitates input into the accounting standard-setting process from all stakeholders in U.S. capital markets, including financial statement preparers, auditors and issuers, as well as regulators.

This systems isn't broken and does not need to be fixed.

CRESSY LEAVES A GREAT IMPRINT

HON. BARNEY FRANK

OF MASSACHUSETTS

IN THE HOUSE OF REPRESENTATIVES

Thursday, July 15, 1999

Mr. FRANK of Massachusetts. Mr. Speaker, the University of Massachusetts Dartmouth is an extremely valuable institution. It is an excellent educational facility, and it is a great ex-

ample of a public institution of higher education that not only seeks to provide a first rate education to its students, but cooperates indeed often takes a leadership role—in regional economic development.

One of the reasons this University has been such a valued part of Southeastern Massachusetts in recent years is the leadership of its Chancellor, Peter Cressy. On behalf of my colleague from Massachusetts (Mr. MCGOVERN) and myself, I want to insert here in the RECORD the editorial from the New Bedford Standard Times, on Wednesday, July 14, which pays a well deserved tribute to the high quality leadership Peter Cressy provided.

In several areas of great importance to Southeastern Massachusetts economically, particularly including textiles and fishing, Peter Cressy has done everything possible to make sure that the University provided significant help to the broader community, while at the same time fully maintaining the educational mission that is the primary justification of a college.

At a time when some question the value of publicly funded enterprises, Peter Cressy's leadership at the University of Massachusetts Dartmouth gave us an excellent example of how tax dollars can be put to excellent use for the broadest possible public benefit.

My colleague (Mr. MCGOVERN) and I will miss his leadership, his energy, and his enthusiasm at the head of this extremely important institution. And we ask that the editorial from the New Bedford Standard Times be printed here as one example of how excellent leadership can help us get the best of our public efforts.

CRESSY LEAVES A GREAT IMPRINT

When Dr. Peter H. Cressy jumped from the Massachusetts Maritime Academy in Bourne after two years to take over at the helm of UMass Dartmouth, there were those who suggested that this energetic and effective leader might not stay more than two or three years. I wasn't his style.

Dr. (former Rear Adm.) Cressy's career was marked by one success after another, though his Navy days and then on his own. He made his mark and moved on. He had turned Mass. Maritime around when some thought that to be impossible; he then plunged into his UMass Dartmouth job with energy and enthusiasm that were rarely witnessed before. Sometimes controversial but always self-assured and outgoing, Dr. Cressy set about to remake the university and to multiply its ties to the surrounding community.

He stayed for six years, putting the university on the national map, bringing it up to full membership in the UMass system, vastly improving its fund raising, and as he said in his unexpected resignation announcement on Monday, established the marine science and technology program, improved the budget process, improved admissions and retention, increased research, added a Ph.D. program, established centers for business and so on.

Dr. Cressy's methods were not to everyone's taste; that is not uncommon for a bright, visionary individual. But there is no doubt that SouthCoast Massachusetts would be far behind where it is today without his leadership and his initiatives. We wish him the best in his new career in Washington, D.C., as president and CEO of the Distilleries Council of the United States, and we hope to see him follow through on his promise to eventually retire to our part of the world. We would be happy to put him back to work.